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PRESENTATION

Operator

Welcome to the Phillips 66 analyst update conference call. My name is Kim and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded. I will now turn the call over to Mr. Clayton Reasor, Vice President of Corporate and Investor Relations.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

Thank you, Kim. Good morning and welcome to the inaugural Phillips 66 analyst update. I'm here today with Greg Garland, designated CEO of Phillips 66, and we're looking forward to sharing our plans on creating value through profitable growth, enhancing returns and shareholder distributions. The presentation material we'll be using today can be found on the ConocoPhillips IR website and transcripts of the call should be available later today or early tomorrow.

Before I turn the call over to Greg, I want to remind you that we'll be making forward-looking statements as part of the presentation and questions and answers. As you can see on the second slide, we point out that actual results may differ materially from expectations we share today and the sources of these differences can be found in our Safe Harbor statement on this page along with our filings with the SEC, including the recently filed Form 10. With that said, it's my pleasure to introduce the designated Chairman and CEO of Phillips 66, Mr. Greg Garland.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Thanks, Clayton. And good morning everyone. I want to welcome you to our worldwide webcast, we really appreciate your interest in our new Company and we're excited to share with you the story of Phillips 66. I'm going to start on slide 3.

This is my first opportunity to speak about Phillips 66 to the financial community since being designated as CEO of the Company. I thought that today I could share with you some of my perspectives about the Company as we approach May 1. I'm sure you've seen the announcement last week that our Board did approve the spin transaction. It will be effective May 1. We've been working hard executing separation plans, getting ready for day one and we're ready to go.

There's a couple things as I think about Phillips 66, first of all we believe we have unparalleled foundation for success for our Company. Clearly, we think we have three leading operating segments. We have a global refining, marketing, transportation business. We have one of the largest midstream businesses in the US and we have a growing chemicals business, which is one of the world's top producers of olefins and poly olefins. We think we have an experienced management team in place. We have a talented global workforce. They are enthusiastic and ready to go day one. We have a strong technology position in our Company and a solid financial position starting out.

Secondly, we have a clear strategy to improve our returns and our growth. Finally, we think that investors are going to like our plans for continued strong distributions. We have a history of being shareholder friendly. That will continue. We will pay competitive dividends. We believe in increasing those dividends over time and we're going to generate excess cash and we'll use some of that to purchase shares.

On slide 4, during the last three years at ConocoPhillips we've been going through a repositioning or a reset. In the R&M business we've been working to improve returns in that segment. We clearly have been the beneficiary of some improved margins along the way. We've also been working the portfolio hard. We've been selling and shutting down unprofitable assets. We've been working to push margins and increase yields in the business, and we've been tightening and focusing our capital expenditures. In our Chemicals and our Midstream business, clearly returns have been in excess of 20% over the last three years. We expect to maintain strong returns in these businesses while capturing growth opportunities. You can see that the income of the Phillips 66 Company has increased from about $500 million in 2009 to $3.6 billion last year.

On slide 5, you can see that we're taking steps to shift our portfolio to higher returning segments. Over the past three years we've reduced refining capacity about 450,000 barrels a day. In our Chemicals segment we've been growing primarily through investments in the Middle East. In our Midstream segment, growth has come from expansions around the shale liquids and gas producing areas. We've also sold about $2.5 billion worth of assets over the last three years in this segment.

Slide 6 shows our capital employed for each of these three segments versus some of our competitors. 2011 you can see, in R&M, we were mid-pack for ROCE. We'll talk later about our plans to improve ROCE in this segment and what we can do there. Both CPChem and DCP have been leaders in their respective peer groups and return on capital employed.

Slide 7, operating excellence, our Company has a strong history of operating excellence and personally I have a real passion for OE. For me, OE, it's personal safety. It's process safety. It's environmental excellence. It's reliability. We expect employees can work one day, one week, one month, even an entire career, without getting hurt. Over 30 years, I've observed that our safest facilities tend to have the best cost structures. They tend to be the most reliable facilities that we have. There's solid business reasons for focusing on operating excellence. It's clearly a foundation for sustainable value. We've got more work to do here. Zero's the target. That's where we're heading.

Slide number 8 talks about the benefits of the spin. As I think about the spin and really the strategy and the rationale behind the spin, it creates opportunity for Phillips 66 to create value that we just couldn't pursue as part of the integrated ConocoPhillips. Our existing R&M business, our Chemicals and Midstream business, all provide good, solid cash flow and we can use this cash flow to fund strategic growth. We can use it to improve returns, and also for distributions to shareholders. I think another benefit of the spin is you will see greater granularity regarding asset performance and the financial results in all three segments.

Slide number 9, key initiatives. The first four points on this slide is what you've come to know us for. We're good allocators of capital. We're good operators. We believe in creating differential shareholder value. These are the legacies that we bring into our new company. Those will continue.

What we can do now is we can aggressively grow our Chemicals and Midstream businesses. Also I think Phillips 66 is going to be -- it's a simpler company. It's a less complex company than the integrated ConocoPhillips, so we see opportunities to simplify, streamline processes and systems and reduce overheads. We're focused on creating differential shareholder value. We're convinced that returns, growth and distributions create value.

Slide 10, before we get into some of the details of our strategic priorities, just a couple of slides on the external market environment to put some of this in context for us. To say that the supply side is dynamic and changing is probably an understatement. Supply growth in the US and the shales of what we are seeing, and the natural gas liquids that are coming on are really fundamentally changing the opportunity set for the R&M

business, for the Midstream business and the Chemicals business. Ethanol and biofuels will continue to grow as part of the US fuel supply. That's going to impact gasoline demand. Speaking of the demand side, we see growth in non-OECD energy demand and also in US NGL demand. We think there will become pressure on US and particularly OECD demand from destruction. We see that the trend will continue for distillate to grow faster than gasoline. We'll always have the ever present regulatory pressure in our businesses.

Slide 11 is just an overview of North American supply growth. Shale is the game changer. Rapid growth in shale gas, natural gas, NGL production is shown on these charts. After years of steady decline, US on-shore oil production is forecast to grow by over 2 million barrels a day. This is coming from places like the Eagle Ford, like the Bakken, Niobrara, and others. I think it represents a significant opportunity for the US refining industry, especially in the inland markets.

Gas prices have been disconnected from crude for the past couple years. This is really a big change from what we thought as recently as 2005. We expect to see significant growth in NGL production over the next 10 years, more than a 50% increase. We think that NGL prices and particularly ethane are going to be attractively priced compared to crude, and that's going to provide good fundamental economics for our chemicals facilities.

On slide 12 we show some selected refining margins and differentials. I think I probably just summarize to say that we expect that margins in '12 and '13 are going to fall between what we saw in 2010 and 2011, and then you can see on the ethylene cash margins we expect ethane to be strong relative to naphtha.

On slide 13 we talk about the advantaged energy company, which is Phillips 66. We believe that we have a unique value proposition and due to our portfolio and due to the opportunity set that these businesses provide. We have high performing businesses across our portfolio. We believe there's significant opportunity to enhance earnings to improve our returns. Our Midstream and Chemicals businesses are already high return businesses, but they have significant growth opportunity and we believe that we can grow earnings in both these segments, Chemicals and Midstream, at attractive returns. At the same time, we see opportunity in our R&M segment to improve our margins and improve our returns.

Slide 14 is the three businesses, so I would say three differentiated businesses with strong capability. Our Refining and Marketing segment has one of the broadest geographic bases of our peers. 15 refineries, 2.2 million barrels a day of capacity. We are the sixth largest non-governmental controlled refiner in the world, the second largest US refiner. We're the only independent downstream to have significant ownership and interest in gas gathering and processing in the global petrochemicals business. Our Midstream businesses are primarily conducted through our 50/50 JV with Spectra and DCP is one of the largest gatherers and processors of natural gas and NGLs. Our Chemicals business is primarily conducted through our 50/50 JV with Chevron. CPChem is one of the largest producers of olefins and poly olefins and has spent the last 10 years building one of the best positions in the Middle East, and CPChem has significant assets in the US which are advantaged given the NGLs from the North American shale plays.

Our DCP joint venture is 13 years old. Our CPChem joint ventures is 12 years old. These ventures have stood the test of time. We have great partners who are extremely well-managed companies. We have a lot of respect for our partners. We think they bring immense value to our partnership. In addition, we have significant pipeline transportation logistic networks that support our businesses. We believe that this geographic footprint, the diversity of our businesses gives us a competitive edge versus our independent peers, and provides a great platform for growing the business.

Slide 15 is our map of our refining assets. It's our global portfolio. We have 15 refineries globally, 2.2 million barrels a day of capacity. When we think about our refining business we like to think about it in four segments. One is the Mid-Continent, about 21% of our capacity is there. Margins have been very strong in this area, as you know. Our largest region is the Gulf Coast, about 33% of our capacity is there. We have large economy of scale here. We have very complex refineries on the Gulf Coast. The Western US and Pacific region is about 20%, includes our interests in the Melaka refinery. The West Coast has typically had high margins historically, but the last couple years has been challenged in part due to the economic slowdown in California.

The fourth region is the Atlantic Basin and Europe. We have about 26% of our capacity. We significantly reduced our position in this area. We shut down about 450,000 barrels a day of capacity. Another point is we yield a high percentage of distillate, around 40%. In 2011 we ran the highest percentage distillate compared to our peer group. About 1% shift in distillate demand is worth about $50 million in net income to us at today's prices.

Moving to slide 16, cover our marketing and specialities business. Our US marketing organization consists of operations in 49 states and we market under the brands of Phillips 66, Conoco and 76. We look at our marketing operations as allowing for refinery pull-through and also a source of income and good return on capital employed. Our European marketing business is highly efficient. It's very profitable. It provides a stable cash flow and delivers strong returns in excess of 25%. It ensures refinery pull-through for us and we think we have a low cost position in the market. We primarily market under the jet and co-op brands in Europe.

Our specialities business is another area that helps differentiate us from our peers. They provide strong, steady cash flow, high returns. We're one of the leading US lubricant marketers. We also have a leading position in the pipeline flow improver business. We have a small but growing business in graphite, and we'll use that to take advantage of the growing battery market for hybrid and electric autos. In total, our marketing and specialty businesses generated about $500 million a year of earnings over the last three years.

Slide 17 moving on, Chemicals. As we've said, our Chemicals operations are conducted through our CPChem joint venture with Chevron. Our Chemicals businesses delivered superior returns. We think it's an exceptional growth platform. CPChem produces petrochemicals in over 70,000 different commercial and industrial products, holds global market positions in several key products, such as olefins, poly olefins, aromatics and other specialties. It has a large global footprint and we're rapidly expanding outside of the US. We think part of CPChem's success and its foundation is based upon -- is proprietary technology. We believe this ensures lower cost for us, it enhances our competitiveness. These are markets, these are technologies that we understand thoroughly.

As you know, advantage feed stocks is critical to profitability and sustained returns in this business. CPChem has a substantial footprint in the Middle East. CPChem also has a large asset base in the US. It's primarily based upon ethane. It's allowing CPChem to recover attractive margins today. We believe after the Middle East, the US-based ethane based ethylene margins are going to be significantly advantaged versus margins in Asia and Europe, which are primarily based on naphtha. CPChem's done a good job over the last few years in terms of their portfolio management. They've been very disciplined on their costs. They have been shifting investments into higher returning opportunities, and the have moved from really last in their peer group to number one in their peer group on economic return.

Slide 18 covers our Midstream business, primarily conducted through our JV with Spectra DCP. DCP is one of the largest gatherers and processors of natural gas and natural gas liquids. We do hold assets outside of DCP. We have interest in three fractionators with a net capacity of 112,000 barrels a day. We also have a 25% interest in the Rex pipeline. When you look at our Midstream operations and particularly the DCP, they overlay some of the best shale plays in North America and so just superbly positioned to capture significant growth opportunities. DCP, like CPChem, leads its peers in terms of economic return on assets.

Moving on to slide 19. I think this slide might surprise you. While the capital employed and refining marketing and specialities was 84% of our total in 2011, it represented only 64% of our earnings. If you look at just refining, only 40% of our average earnings in the 2009-2011 time period came from refining. Our Marketing, Specialty, Midstream and Chemicals businesses are high return businesses. And while there are commodity elements within these businesses, they tend to mitigate volatility that we see in our base refining business. Our plan is to shift more capital towards these higher returning businesses, so we're not your normal refining company.

Slide 20 are our strategic priorities, returns, growth, distributions. Simple strategy. We'll always focus on operational excellence. We'll focus on building a great organization to execute our plans, but we are committed to delivering differential shareholder value. We have a core belief that by improving returns in our businesses, and we'll improve returns by managing the portfolio, capturing margin, improvement opportunities, pushing yields, and shifting capital into higher use and higher return opportunities like Chemicals and Midstreams. We believe we have opportunity to grow in those areas and then we also think, as part of our core program, that shareholder distributions are important. We will pay a competitive dividend. We will grow that dividend over time. We'll have excess cash that we can direct toward share repurchases.

Slide 21. Here's how we plan to enhance returns on capital. I think you will see continued portfolio optimization, margin improvement from us. We will drive our capital employed to higher returning businesses. You can see on the chart on the right in 2012 we plan to high grade, to move more investment to Chemicals and Midstream. And by the way, these are our equity share of the investments in Chemicals and Midstream. While we're pursuing aggressive growth at both the DCP Midstream and the Chemicals Midstream, our view is that they're going to be self funding and at the same time they will dividend cash back to Phillips 66.

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As we look at our refining business, we pulled capital down over the past couple years. Our sustaining level of capital in the R&M segment is about $1 billion a year. We will focus some incremental spend in R&M on margin improvement projects. We think that there's opportunities to capture more feed stock advantaged crudes. We can drive our clean product yields, increase our export capability. 1% improvement in clean product yield gives us about $100 million to $150 million of net income improvement. If we can capture $1 a barrel of WTI/Brent differential, it's worth about $90 million of net income. There is powerful economic incentives to capture these margin improvements.

Slide 22, optimization of the portfolio. Long-term we have a vision that about 50% of our capital employed will be directed towards the R&M segment. And the other 50% will be directed towards Midstream and Chemicals. We'll preferentially invest in the higher return businesses and we will be very selective in how we invest in the lower return businesses.

Moving on to slide 23. We think we have the ability to capture an advantaged feed stocks. It's a key part of our plan to improve margins in our R&M segment. I think having the system capability and the flexibility to capture crude advantage has helped us capitalize on the recent WTI differentials we've seen. We plan to increase our exposure to heavy, to high acid, to WTI, WTS. In 2012 we'll move that to over 60%. We think by 2015 we can move to over 65% without significant capital expenditure.

Near term, we want to run more shale oil through our refineries. We have the kit today to run about 460,000 barrels a day of shale type crudes. As this new production comes online, as we debottleneck infrastructure, we'll work to bring that into the refineries. We also have some projects that we can pursue. At Billings we can go from 2% to 3% sulfur. We can go from 75% heavy to 100% heavy. This investment, it's less than $200 million. It will save us $3 to $4 a barrel. We'll work to increase our infrastructure capability to get advantaged feeds into the refineries. We'll also work on export infrastructure around our West Coast and our Gulf Coast facilities.

Speaking of exports, on slide 24. You can see we export about 100,000 barrels a day in 2011. We plan to do some debottlenecking, get more access particularly off the West Coast and Gulf Coast. We'll add over 100,000 barrels a day of additional export capability in the next couple of years.

On slide 25, managing costs is just part of who we are. It's in our DNA. We do that very well. We're going to have some additional costs in 2012. There are dissynergies that are direct result of the spin. We set a cost reduction target of $200 million. This will more than take care of any dissynergies that we have coming out of the spin transaction.

26, profitable growth. It's our second major strategic priority. We'll grow earnings and cash flow, primarily through Chemicals, Midstream, specialities and transportation segments. We don't see a lot of opportunity to really grow our refining capacity at this point in time so it's a run well, optimized business. It's capture margin improvement. It's capture advantaged crudes. It's driving yields for us.

We look at slide 27, the Chemicals growth. CPChem has a strong history of successfully executing growth projects. They've executed five mega projects in the Middle East over the past 10 years. They continue to work new opportunities in the Middle East region. They're currently building the world's largest 1-hexene plant at Cedar Bayou. They're actively pursuing a new Gulf Coast cracker. We think it will start up in 2017. This will be the first new cracker to start up on the Gulf Coast.

These large volumes of NGLs that are coming on are really driving opportunity in the US. I'll just point out, this is American energy. It's American security. It's American jobs. We believe we're looking at one of the largest potentials for a resurgence in American manufacturing that we've seen in several decades, and we want to be part of the leading edge of that opportunity with significant investments in Gulf Coast assets. CPChem is well positioned to capture these opportunities.

On slide 28 we move to the Midstream and the growth through DCP. We're investing significantly in both NGL pipelines and gathering, processing capability. When we look at the increased shale production, we believe there's about $70 billion to $80 billion worth of industry investment needed in infrastructure. Of that, about $21 billion has already been announced. And roughly $6 billion of the $21 billion is DCP's announced investments. When you look at DCP's assets, they overlay some of the best shale opportunities in the world today, places like the Eagle Ford, the Permian, the Anadarko, the Niobrara and others. DCP is just superbly positioned to capture and create value in this area and there remains considerable, additional opportunity in this space.

Moving on to slide 29. We're focused on improving our returns. We believe that superior returns drive superior shareholder value. This slide shows quantitatively how we plan to improve our ROCE. You look at a three year average of 8%, we have opportunities in improving margins. The Chemicals growth, the Midstream growth and some portfolio work, we really, across the cycle, we want to deliver a 15% return.

Looking at slide 30, shareholder distributions is a core part of our strategy. We think investors are going to like our strategy to share significant value with our owners. We will grow our distributions over time. We'll pay an $0.80 annual dividend to start off with. It's about $500 million a year. We look at it as being very affordable. It's about 20% of our cash flow over the past three years on average. In terms of repurchases, we like repurchases and we will direct some of our excess cash flow for taking in shares. Mid-cycle margins, we'll have plenty of capital to fund our sustaining capital requirements through some strategic investment, pay our dividends and take in shares.

On slide 31, we talk about financial strength and flexibility. We will start May 1 as a financially sound company. Our initial credit rating is BBB from S&P. BAA1 from Moody's. We intend to maintain this financial strength and flexibility. We just issued $8 billion of very affordable debt at average all in interest rate of 3.5%. Our initial debt to capital will be somewhere a little over 30%. And we'll generally target a range between 20% and 30%.

When you look at 2009, 2010, 2011, this represents cash flow generation for the Company in three very different external environments. We recognize that this business is volatile. We think our cash flows will remain volatile. We expect to generate sufficient cash to fund our sustaining capital and our distributions throughout the cycle.

Slide 32, I'll close on this slide. Hopefully today you'll have heard that we like our portfolio of assets. We like our businesses. And we like the opportunity set that we think this portfolio provides for value creation.

I think we start May 1 with an unparalleled foundation for success. We've got great assets. We have an experienced and talented management team. We have the you human capability to execute and we have a solid balance sheet starting out. We have a clear strategy to improve our returns and we have a strategy to grow and as I've said, we think investors are going to like our plans for continued strong distributions. That's' what I had prepared to say today. I think we'll open the line now for questions.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

Kim, as we tee ups questions, I would just like to remind analysts and others on the phone if we could restrict the questions to Phillips 66 and the downstream businesses. We'll have the opportunity to talk about ConocoPhillips on the earnings call and the upstream business next week with Ryan Lance.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Doug Leggate, Bank of America.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Obviously, there's an awful lot of changes going on, in terms of restructuring right now. I'm sure you're up to your neck in that, so to speak. What I'm curious about is the ownership of the Midstream between DCP and Phillips 66. What's the logic or the history perhaps as to why there is a separate Phillips 66 Midstream? And as we look forward, is that something that -- I don't even know if it's possible, but is that something that down the road you would see combining under the DCP platform, or is there some other further restructuring that you could envision there? And I have a follow-up on the refining business please.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

The embedded Midstream business that we have in Phillips 66 today is really the heritage Conoco. Phillips and Duke at that time put all of their Midstream assets into the DCP joint venture, and that at the time was really Duke ConocoPhillips, that's how DCP originally got its name. Of course, that was formed back in 1999.

As we look at the Midstream business that we have inherent within Phillips 66 today, it's a good business. It generates great income, solid returns. It's a business that we would like to grow. I think certainly it's a business that we could look at, it's MLP-able, we could drop it into an MLP. We could, certainly it, at some point, could go into DCP. But we are studying all the options of how we grow that business, and how we create additional value with that business.

Doug Leggate - *BofA Merrill Lynch - Analyst*

My follow-up is a very related question. On the downstream, you similarly have big pipelines and Midstream interest. I'm just curious if the same MLP commentary would apply there down the road?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

So, we have an MLP today embedded within DCP, it's DCP Partners. It's highly efficient. It's a vehicle that DCP is using to fund their growth. I think certainly we understand the value potential, value-creation potential of an MLP as we look across the P66 portfolio in transportation, logistics and Midstream, we have assets that are MLP-able and certainly we're studying those. Appropriate time, we'll bring that forward.

Operator

Doug Terreson from ISI.

Doug Terreson - *ISI Group - Analyst*

Congratulations on the upcoming spinoff. Parent ConocoPhillips cash distribution yield has led the peers when you consider both dividends and repurchases during the past three or five years, I think. And on this point, Phillips 66 appears to have been structured with the best free cash flow profile in the United States R&M industry with $1.5 billion to $2 billion of annual surplus cash flow, from what I can tell. My question regards -- when you guys think about capital management and specifically in your non-R&M businesses, you have returns on capital over 20%, your after tax debt costs I think are going to be below 3%, or right at 3%.

My question is -- what factors are you considering in trying to determine how you allocate surplus funds? Meaning, you highlighted three or four different areas, but you've got some high quality opportunities to allocate here, so what are the criteria, do you do each of the three or four every year? How are you thinking about it, Greg?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

I think it will be some combination, Doug, as we look at that. One of the challenges is forecasting cash flow in a very volatile business. We are going to be hesitant to really commit to a specific percentage today, in terms of how we're going to allocate that. We like taking in shares. We think that creates a lot of value for us. We've seen the benefit of that at ConocoPhillips. We've watched that. We understand that. We like that.

In the R&M segment, just look at the opportunities to add capacity. They don't seem to make a lot of sense to me at this point in time. We'll spend some incremental capital, that are going to be 25%- and 30%-type return projects around grabbing some of this advantaged crude, and pushing margins and yields. Clearly the Chemicals and Midstream we've got aggressive growth plans there, but those are primarily self-funded. The next three to four years, we just don't see a cash need coming to us from either our Chemicals segment or the Midstream segment. Doug Terreson -That leaves some cash to, Greg Garland - as you well pointed out, to take in some shares. We may pay down a little debt over time. But clearly that will be our focus.

Operator

Paul Sankey, Deutsche Bank.

Paul Sankey - *Deutsche Bank - Analyst*

Follow-up on Doug's -- the very last point you made. Are you saying that the debt levels now will not be repaid, and that you will -- excess cash flow, as of now, will go to buyback?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

I think we'll look at that over the next couple years, Paul. I think we may pull down debt some, but the challenge for us is it's pretty cheap debt. We're going to have $8 billion in debt, roughly. We've got a $2 billion term loan, three-year term loan, and I think it amortizes over three years. We have to decide how we do that and pay that back. That's clearly an easy one that we can pay back. The balance of the debt in the Company is 3-, 5-, 10-, 30-year debt that is actually very, very attractive debt. It would be tough to pay that down.

Paul Sankey - *Deutsche Bank - Analyst*

I guess you're also saying that you have to with your credit rating where it is.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

We like the BBB, BAA1.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

Just have to make sure the balance sheet is strong enough. We recognize we're in a very volatile business, and the balance sheet needs to be strong enough to be able to fund capital programs through the cycle, and so that's -- we would like to have a very strong balance sheet. I think it would be difficult to get our credit rating much higher than it is right now. If you look at the peers in the group, you don't see many with a single A. You don't see any with a single A credit.

Paul Sankey - *Deutsche Bank - Analyst*

Then, I guess the approximate level of your dividend clearly is something that you're happy with. Could you talk a little bit about what you think is appropriate growth in that dividend?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

We've said that we'll start at $0.80 annual, and we've said modest increase, and I think we kind of termed that about 5% a year, is what we're planning, Paul.

Paul Sankey - *Deutsche Bank - Analyst*

On the Midstream first, can you give us some idea of the EBITDA. You mentioned the projects, but could you give us some idea of the EBITDA associated with both the identified and future projects?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

We probably don't want to get in front of either Spectra or DCP on either Sand Hills or Southern Hills pipelines, but these are mid-teens or higher returning projects, and we are talking about putting $2 billion of capital into them. You could probably do the math, and figure out what EBITDA expansion we're expecting.

Paul Sankey - *Deutsche Bank - Analyst*

Can we apply the same thing to the Chemicals expansion?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Yes, I think so. High, mid-teens, 15%- to 20%-type returns is what we're looking at.

Paul Sankey - *Deutsche Bank - Analyst*

After changes, we've heard this slightly bizarre story about Trainer. Could you just update us on any other shifts in the portfolio?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

We've had a history of really not commenting on commercial negotiations with potential buyers of refineries, whatever industry they're in. I think we probably want to continue that practice of not commenting on any kind of business development activity for the time being.

Paul Sankey - *Deutsche Bank - Analyst*

Have you made it public what is for sale?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

We've said that Trainer and Alliance are on the market.

Paul Sankey - *Deutsche Bank - Analyst*

Is that about what you would expect to rationalize?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

I think Greg said it in the call, that we'll continue to shore up our refining portfolio, and there may be additional portfolio actions in addition to Trainer and Alliance.

Operator

Ed Westlake, Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

You're growing aggressively the capital employed in Chemicals and Midstream, and you've given a couple of projects, but those returns will be likely lower than the current returns that you're generating. It's really the application of decent return and capital employed that drives the return enhancement for the Corporation; is that a fair assessment?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

I think that you would say that the returns are going to be lower than what we're seeing today, but they're still significantly better than what we're seeing in the R&M space, and so it's accretive to the overall return of the business.

Ed Westlake - *Credit Suisse - Analyst*

When you're looking at the Midstream growth, you've outlined DCP opportunities, the $6 billion. Are there any sort of ability to grow in the PSX portfolio as well?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Certainly. I think we're looking at growth opportunities. A good example could be exports of NGLs out of the US. Certainly something that we're considering, given all the propane, butane that's going to be available. I think we're not necessarily constrained in how we grow. It just has to make sense, and has to be accretive in terms of the return.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

The other areas I think we're looking at growth are really not Midstream assets, but they're transportation, logistics assets that would allow our refineries to run more advantaged crudes, or allow them to export products, or bolt-in pipelines and terminals on that make sense to our existing refining network. Even though it's not considered really a Midstream business, I think transportation logistics may get its share of capital.

Ed Westlake - *Credit Suisse - Analyst*

It's a fair reflection from your earlier comments to have a potential MLP in the PSX portfolio that you could then drop down some of these assets into, over time, or via DCP?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

I think that you heard Greg say earlier, I'm sure we'll get that question throughout the week, we're just not ready to announce what we plan to do on an MLP. It is something we're looking at. We understand the value that's created by forming an MLP and putting assets in. They create great vehicles to grow, and obviously, we've got some assets that are MLP-able. Something we need to consider, and are considering.

Ed Westlake - *Credit Suisse - Analyst*

Would that percentage of earnings that you've shown in the chart be a fair reflection of the amount of MLP-able assets?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

The $500 million in after tax earnings out of -- well, some of those assets in there, in the marketing and specialities business, have volatility of earnings and cash flow, which really would make it difficult to put them into an MLP.

Ed Westlake - *Credit Suisse - Analyst*

I was just referring to slide 18 where you've got PSX 32%, and Midstream adjusted earnings in DCP 68%.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

That would probably, in the Midstream section, that would be a reflection of the order of magnitude of Midstream assets, excluding our transportation logistics assets.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

That Midstream portion, Ed, it's our NGL and fractionation business. That doesn't include our pipelines and terminals, and those businesses that are shown. I think we show that someplace else.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

No, we don't show that.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

That one graph, what does it show, like, one-third of our Midstream is Phillips 66. I would say there are more than -- we have the capability of putting more than that amount into an MLP.

Operator

Faisel Khan, Citigroup.

Faisel Khan - *Citigroup - Analyst*

On the $500 million in marketing and specialty earnings, how variable has that number been over time?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

That's a wholesale marketing business in the US. You know what marketing margins do, depending upon how quickly crude prices move up and down. I would say, of the four items that we've shown on that page, US marketing is probably the most variable. European marketing business is 900 sites in Germany, primarily Germany and Austria. That's a retail business. There is some variation in that one, as well.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

But not as much.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

Not as much. The lubricants and flow improver business tend to be pretty steady.

Faisel Khan - *Citigroup - Analyst*

You said the oil pipeline and product pipeline and terminal numbers are in this $500 million number, too, right?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

No, they are embedded in our refining earnings. That $500 million in net income excludes two things, really. It excludes the transportational and logistics business.

Faisel Khan - *Citigroup - Analyst*

When we're looking at the ability for you guys to consume 400,000 barrels a day of shale oil versus I guess you're doing 100,000 barrels right now, what's the timeframe in order to get to that 400,000 barrels number? How do you get there?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Couple years to get all the way to that. It's mostly around infrastructure to get it in. For instance, getting unit trains into refinery, for instance, or pipeline capacity as it gets built over the next couple of years. But I think that it's a clear focus for us. We're running between 100,000 barrels and 200,000 barrels at this point in time, and we're just going to work to work our way up to 460,000 barrels. The value's too good to leave on the table.

Faisel Khan - *Citigroup - Analyst*

Does that mean you have to go out and either take on pipeline capacity, or even extend your current logistics assets? Is that what you're thinking about doing?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Right.

Faisel Khan - *Citigroup - Analyst*

Have you looked at how consuming some of this shale oil or tight oil, how that would change your product yield at your refineries? Is there a gain there, or is just the same?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

That's a refinery-by-refinery question. Why don't you let us do a little bit of work on that. On the surface, you would think that refineries that are running heavier crude are going to have to scale back to run lighter shale crudes, but why don't you let us do a little bit of work on that.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Depends on the shale, too. Take a place like the Eagle Ford, you see stuff that's just water clear to very dark. Even within shale plays, there's a lot of variation. Generally, these are lighter components. When we look at refineries, we looked at optimizing the total refinery in the mix, and then you look at the kits you have available, we think we can, at today's prices, we can economically process just under 500,000 barrels a day.

Faisel Khan - *Citigroup - Analyst*

How much Western Canadian select are you guys running right now through your refining slate?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

I'm going to have to come back to you on that one. Do you know?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

I think it's about [800,000] a day of Western Canadian heavy, is what we're doing.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

That sounds high, but it could be.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

That's probably what's going into the JV. Our equity share would be 0.5 that.

Faisel Khan - *Citigroup - Analyst*

In terms of -- you guys put this slide on page 24 talking about the exports that you guys have driven out of your refineries. Is the capability to get to 220 MBD in exports, is that just with the current refining base you have in the Gulf Coast, or is that through other means also?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Those are off the West Coast and the Gulf Coast. Primary limitations are really dock and tankage.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

There would be additional capacity needed to be able to do that.

Faisel Khan - *Citigroup - Analyst*

The 220 MBD does not include the dockage and the tankage expansions.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

To get to 220 MBD, we're going to have to do some tank expansions and some dock access issues. These are minor investments. These aren't huge investments.

Operator

Paul Cheng, Barclays.

Paul Cheng - *Barclays Capital - Analyst*

One, let's assume for argument's sake if you decide to put your transportation logistic assets into an MLP, with the spinoff, can that be done within the next two years without consequences on the tax implications, or that they are not big enough that should be an issue?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

It depends on how big you go with that. I think as long as we don't dispose of substantially all of our refining business, we'll be fine. And by the way, I would like to MLP our refinery, too, but I don't think that's possible.

Paul Cheng - *Barclays Capital - Analyst*

I'm just talking about transportation logistic assets.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

I don't think that will trip us, from what we can see.

Paul Cheng - *Barclays Capital - Analyst*

And wondering, do you guys even have a rough estimate how much is the transportation logistic asset, the MLP-able asset, EBITDA maybe?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

We haven't shared that. I think, that's part of the analysis that we're going through right now is what assets where we either have partners and don't control things or -- I would hate to put a number out there, then come back later and have to revise the number. We'll stay tight on that for the time being.

Paul Cheng - *Barclays Capital - Analyst*

Greg, if I look at the DCP and CPC, both of them are highly successful joint venture between you guys and your partners. But joint venture is never an easy thing for the long haul. Are you guys happy with that structure from a logistics stand point over the long haul, or that is an end game that whether you want to buy out your partner or that maybe sell it back to your partner, how should we look at that? If that current structure is really that you say -- okay, this is not going to change.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

One of the things I tried to point out in the presentation is, these are 12-, 13-year-old ventures. They've kind of stood the test of time, and they have taken what were, in our view, average and underperforming businesses, and they've become the leaders in their segment. They've been highly successful in the execution of their strategy. We like the model. We think it brings a lot of value, and we just don't see that changing.

Paul Cheng - *Barclays Capital - Analyst*

Can you share with us what is the sustaining capital requirement for each of your business?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

I think on refining, we talk about sustaining capital or maintenance capital to be somewhere around our D&A levels, so $900 million to $1 billion. We haven't really talked about the amount of capital that's required in either DCP or CPChem. I would expect that we'll be providing greater disclosure on the capital requirements in those businesses going forward. We do have a slide in here that talks about the capital on a look-through basis on a proportional basis as you look into those, but that is a combination of both sustaining and growth capital.

Paul Cheng - *Barclays Capital - Analyst*

How about marketing and specialty, Clayton?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

The marketing business probably between $50 million and $100 million a year. In the specialities business, I would say sustaining capital is pretty marginal, $10 million to $20 million.

Paul Cheng - *Barclays Capital - Analyst*

That means that on the wholly-owned operation, you're talking about roughly $1 billion, $1.1 billion in sustaining capital requirement?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

That's correct.

Paul Cheng - *Barclays Capital - Analyst*

That CPC and DCP, you are saying that is essentially self-fund?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

They are self funding.

Paul Cheng - *Barclays Capital - Analyst*

Not going to come out from your cash flow.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

We don't expect there to be cash calls from either of those JVs.

Paul Cheng - *Barclays Capital - Analyst*

How about in the Phillips 66 Midstream or Phillips Midstream? What is the sustaining?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

It just depends on what we end up doing with those businesses, but the sustaining capital within Midstream would be very small.

Paul Cheng - *Barclays Capital - Analyst*

Would be very small. Do you have a breakdown of the $200 million on the cost reduction, when you expect to achieve that, and the breakdown between the personnel saving, feed stock, energy and other?

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

I think you're about three months in front of us, Paul. I wish we did have specifics on the cost reduction. We've got some dissynergies that are associated with the spin. We're committed to eliminating those dissynergies. As far as where they're coming from, whether it's reductions in procurement cost or reductions in operating expense in other places, or corporate staffs, that's just work that's in front of us.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

I would just say -- we expect reductions in all those areas, and hopefully, by the end of '12, we'll be at that run rate. Certainly by '13 we should have achieved that $200 million, and probably will exceed that. We typically overachieve in those areas.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

We'll give you some more targets and more specifics on that going forward.

Paul Cheng - *Barclays Capital - Analyst*

One final question.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

Thought you just had two questions.

Paul Cheng - *Barclays Capital - Analyst*

On the cash return to shareholder, Greg, can you give us a personal preference how you rank between the share buyback, the regular dividend, and the special dividend? Also on the regular dividend, do you have a target payout ratio or target yield?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

We said that the $0.80 is 20% of cash flow over the last three years. We think that's pretty affordable. We want to increase that dividend kind of 5% over time.

Paul Cheng - *Barclays Capital - Analyst*

But you don't have a target payout ratio or target yield on the regular dividend?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Really it's a volatile business. We're going to protect and defend the dividend. We think we're going to generate excess cash over the next few years, and we're going to use that to take in some shares and do some strategic growth. I think you'll see a combination of that, but we're really resisting putting percentages on how we're going to allocate the excess cash that we're going to have.

Paul Cheng - *Barclays Capital - Analyst*

How about special dividend?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

I prefer share buybacks to special dividend. That's just a personal preference of mine.

Operator

Chi Chow, Macquarie.

Chi Chow - *Macquarie Research Equities - Analyst*

I have a question related to the whole MLP issue. I was just wondering if you have concerns, Greg, over valuation inefficiencies. In other words, do you think the market will assign full and proper value for each of your business segments? We've certainly seen your competitors and shareholders of your competitors take some pretty dramatic steps to monetize or force companies to monetize assets in various ways. Just want to get your thoughts on that.

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

When I look at the MLPs, I think that they can create value. Certainly, what do you do with the cash is a question that you've got to address. The next couple of years we're going to generate quite a bit of cash, it looks like to me. Clearly our view is we're going to be shareholder-friendly in terms of dividends, increasing dividends and share buybacks. I think all of that will factor into the equation of how we move, and directionally where we go with this MLP issue.

Chi Chow - *Macquarie Research Equities - Analyst*

Do you see other further spinoffs? Are you concerned about the Chemicals valuation along with R&M down the road?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

That's a question that's outstanding, I think, about Phillips 66 is -- who is the peer group? In some ways, we're peerless. Even we struggle with, how do we measure our performance, and what benchmarks do we use in measuring that performance. Without question, we would like to see this valued. We would like to see value in our share price for the higher-returning elements in the transportation and the marketing, the specialities, the Chemicals, the Midstream. As I look at these, these are good platforms for growth and good platforms for value creation. We really like the opportunity set we see when we look across all these opportunities.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

As you know, Chi, a lot of people will do a sum-of-the-parts evaluation of Phillips 66, and we've got sophisticated owners, and you guys that cover us do a nice job of understanding the different multiples you assign to these different businesses. Even though we have significant portion of our businesses that are in Chemicals or Midstream, we don't expect those businesses to attract an R&M multiple. We would expect our Chemicals ventures or our Midstream businesses to attract multiples that leaders in their industries would typically attract. I think some of the parts analysis will give people a better idea of the value of the Company.

Chi Chow - *Macquarie Research Equities - Analyst*

Can you talk about your decision to sell the interest in the Seaway pipeline, and how that plays into your view on sustainability of the wide inland discounts, crude discounts?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

That was a decision that was taken by the integrated ConocoPhillips. Selfishly, I wish we could have closed it in May, but it was the right decision to make. I think that clearly it's the right thing for the country to do in terms of turning that pipeline around, and the owners of that pipeline are committed to doing that. And as we looked at it, it was just going to take a year or longer to do it. It was going to take quite a bit of capital from our view to turn it around, and frankly, we just had higher opportunities to invest that capital, particularly in the upstream business, and even in the new Phillips 66 Company. It was the right decision to make, to go ahead and monetize that. We got great value for that line.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

There was going to be a line built either way. Even if we had kept that line going from south to north, somebody else would have built a line. It was a question of when you do it, not if.

Chi Chow - *Macquarie Research Equities - Analyst*

What's your outlook on the European refining market? You've sold the Wilhelmshaven plant, but going forward, are you comfortable with your remaining market position there?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

We like the retail presence we have there. It's a 30%-plus ROCE business for us. We have a small interest in the MiRO refinery, and that generates acceptable returns for us. As you know, we look at that market a lot like North America. It's a difficult, it's a challenged market. It's really not a huge growth market for us. We like the returns and the stability we see coming out of that.

Chi Chow - *Macquarie Research Equities - Analyst*

Do you need to own refining to keep the marketing presence?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

No. No, you don't.

Chi Chow - *Macquarie Research Equities - Analyst*

Is that an option going forward?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Could be an option going forward. We like those assets. That's probably one of the better refineries, we think, in Europe. It's a small percentage for us in terms of the ownership.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

Humber would be the other refinery that's fairly strong in Europe. If you're poking around to what are core assets and which ones aren't, that's something we just have to do a little bit more work around before we're going to share what we would be interested in selling, outside of the refineries that we already announced sales processes around.

Operator

Robert Kessler from Tudor, Pickering, Holt.

Robert Kessler - *Tudor, Pickering, Holt - Analyst*

You mentioned some interesting stats in terms of your perceived market CapEx required to fully develop the Midstream opportunities. I think you were talking about this in the context of slide 28, and the numbers you threw out, $70 billion to $80 billion needed industry-wide, of which $21 billion is announced, I think, and $6 billion [to DCP]. Would you expect DCP to participate on a pro rata basis for that full, say, $80 billion gross number? And then what about non-DCP Midstream growth options for PSX?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

I'm not sure we'll participate exactly pro rata with DCP. I think we're growing DCP at a good, crisp rate, and we're comfortable with that rate and that expenditure at the level. You see $6 billion worth of projects announced. This business is undergoing remarkable change. We want to be part of that, obviously. In terms of our own Midstream business, we're looking at how do we grow that, and certainly people have pointed out that there's different ways that we can create value and grow this Midstream business, and we're considering all of those today.

Robert Kessler - *Tudor, Pickering, Holt - Analyst*

For the total $80 billion estimated, does that match up with, say, your chart on page 11 with the NGL output to 2020, is that kind of the timeframe to think about?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

That's right. Those are consistent.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

Of the $80 billion, or $70 billion to $80 billion that we expect going into this, Robert, we think that there's probably $20 billion to $30 billion that's already been announced. The remaining amount is $40 billion to $50 billion.

Robert Kessler - *Tudor, Pickering, Holt - Analyst*

Would you expect DCP to stick within its existing areas of participation, or step out in new markets, or how do you see the overall asset mix over time?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Clearly, the strategy right now is to grow around their core.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

I think they have announced attempts to move out of the Oklahoma, Texas area in the past, but nothing definitive. I think they're going to go where the opportunities are.

Robert Kessler - *Tudor, Pickering, Holt - Analyst*

Would you be supportive of a step out beyond the existing areas?

Greg Garland - *ConocoPhillips - Chairman, CEO Phillips 66*

Well, I think we would be supportive of any opportunity that is value accretive at the end of the day. But focusing around your core is one area that you continue to grow, and you typically will get your highest returns around your core.

Operator

Thank you. This was our final question, and this concludes our question-and-answer session. I will now turn the conference back to Mr. Reasor for closing remarks.

Clayton Reasor - *ConocoPhillips - VP, Corporate and Investor Relations*

Great, Kim. Thank you, everybody, for your questions and attention, and we do appreciate the interest in the Company, and look forward to talking more about what we plan to do at Phillips 66. As Greg mentioned, we're real excited about getting started, and look forward to talking with you more in the coming weeks. Thanks again, and we'll talk to you soon.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
